S&P Global Ratings

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Georgia; General Obligation; General Obligation Equivalent Security

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Credit Profile		
US$717.29 mil GO bnds ser 2016 A due 02/01/2036		
Long Term Rating	AAA/Stable	New
US$382.19 mil GO rfdg bnds ser 2016 C due 01/01/2027		
Long Term Rating	AAA/Stable	New
US$199.87 mil GO bnds (Federally Taxable) ser 2016 B due 02/01/2036		
Long Term Rating	AAA/Stable	New
US$67.985 mil GO rfdg bnds (Federally Taxable) ser 2016 D due 07/01/2026		
Long Term Rating	AAA/Stable	New
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Georgia's general obligation (GO) bonds series 2016A, 2016B (federally taxable), 2016C and 2016D (federally taxable). In addition, S&P Global Ratings affirmed its 'AAA' long-term rating on the state's GO debt outstanding. The outlook is stable.

The 'AAA' rating reflects our view of the state's:

- Well-diversified and broad-based economic growth that is outpacing that of the nation following a period of stagnation associated with the Great Recession;
- Strong financial monitoring and oversight with a history of budget adjustments, mainly through expenditure reductions, to restore fiscal balance;
- Additional flexibility provided by the substantial recent growth in the revenue shortfall reserve (RSR);
- Moderate debt position bolstered by rapid amortization; and
- Proactive management of long-term liabilities through full funding of the state's portion of pension contributions and the creation of other postemployment benefit (OPEB) fund reserves.

Georgia's full faith, credit, and taxing power secure the bonds. The series 2016A and 2016B bond proceeds will pay for various capital projects, whereas the 2016C and 2016D bond proceeds will refund certain GO bonds outstanding. Of the series 2016A and 2016B proceeds, the most significant uses are $248 million for the State Board of Education (kindergarten through 12th-grade education), $263 million for the Board of Regents (higher education), and $100 million for the Department of Transportation. The series 2016C and 2016D bond proceeds will be used to refund existing parity GO bonds for debt service savings. There is no extension of original maturities, and savings are taken on a level basis throughout the remainder of the repayment term.

According to IHS Global Insight Inc., Georgia's employment growth continued into the first quarter of 2016 with 3.3% growth in private sector payrolls equating to 115,000 jobs. First-quarter results were realized on the heels of solid annual average growth of 2.5% in 2010 to 2014. The state's employment recovery is broad-based with construction jobs increasing 7% year over year through March 2016. Other sectors experiencing impressive year-over-year growth include business and professional services (4.6%), leisure and hospitality (4.5%), and trade, transportation, and utilities (3.1%). Manufacturing, which we've observed is contracting throughout portions of the U.S., has surprisingly shown growth of 2.6% year over year Georgia's unemployment rate declined to 5.5% in March 2016 (preliminary) from 6.2% in March 2015, but remains above the nation's rate of 5.0%. Over the medium and long term we believe that Georgia's low cost of living, strong transportation network, weather, and favorable business costs are likely to continue attracting business investment and jobs to the state. IHS Global Insight projects Georgia should experience average annual job growth of over 2% between 2015 and 2017, compared with the U.S. rate of approximately 1.5% over the same period. Positive job growth trends should continue to bolster income tax and sales tax receipts, which together contribute approximately 72% of general fund revenue.

The governor signed the fiscal 2016 amended budget on Feb. 17, 2016, increasing it by $1.24 billion to $23.0 billion, of which $21.7 billion is funded with general fund revenue. As is normal procedure, the amended budget for fiscal 2016 included headcount reconciliation for kindergarten through 12th-grade education and about $110 million in additional funding from budget adoption. Other programs in receipt of significant additional funding include transportation ($759 million) and Medicaid and child welfare services ($177 million). The spending increase for transportation was primarily funded with revenue generated from House Bill (HB) 170, which passed during the 2015 legislative session. HB 170, or the Transportation Funding Act of 2015, primarily eliminated sales tax on motor fuel taxes and consolidated all motor fuel taxes into an excise tax. Revenue from the act has totaled about $645 million through April 2016. For fiscal 2017, the amount available for transportation projects, including the $825 million generated from the act, is forecast to total nearly $1.7 billion.

The fiscal 2016 budget was based on general fund revenue growth of 6.2%, and through April 2016 net collections are 9.9% ahead of last year and 3.5% ahead of estimates. Year-to-date individual income tax revenue is 8.8% higher than prior-year collections, evidencing Georgia's strong year-over-year employment growth. Corporate income taxes and sales taxes are relatively flat compared with the prior-year period. Sales tax revenue reflects the structural shift from sales taxes levied on motor fuels to an excise tax, as described above relative to HB 170. As a result, motor fuel tax revenue is up 61% over fiscal 2015. We view the modified tax structure as positive for funding transportation projects, providing a more stable revenue source tied less to consumption-based activity.

In fiscal 2015 the state added nearly $570 million to its RSR, increasing the total at June 30, 2015 to $1.4 billion, or 7% of net general fund revenue. In our opinion, the improvement in the RSR balance is a credit positive, as the state experienced a significant downturn during the Great Recession and lagged the U.S. in its recovery. Officials report the contribution at June 30, 2016 will approximate a similar amount, increasing the fund to nearly $2 billion, the governor's goal for its balance when he leaves office in January 2019. The additional flexibility provided by the RSR will help insulate the state in case of a subsequent downturn or weakening in the economy in the next several years.

The state's overall debt burden remains moderate, in our view, and slightly improved from fiscal 2014. In addition, despite the current and anticipated future issuance, we believe the debt position will remain moderate given 10-year amortization equal to 70% of principal when including the series 2016A and 2016B new money GO bonds and existing guaranteed revenue debt. Total debt outstanding as of fiscal year-end 2015 was $9.4 billion: about $8.8 billion in GO debt, $327 million in guaranteed revenue debt, and $243 million in capital leases and loans. Total debt was $919 per capita, 2.3% of per capita personal income, and a low 2.0% of GDP per capita as of fiscal 2015. As of this issuance and taking into account principal payments due on July 1, 2016, Georgia will have approximately $9.8 billion (unaudited) in GO debt and guaranteed revenue debt.

Georgia's GO bonds are eligible to be rated above the sovereign because we believe the state can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013 on RatingsDirect, U.S. states are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable, with significant state autonomy and flexibility demonstrated by serial bond amortization as well as independent treasury management.

Based on the analytic factors we evaluate for states, on a four-point scale on which '1' is strongest, Georgia's composite score is '1.5'.

Outlook

The outlook reflects our view of Georgia's active management of its budget and revenue forecast and willingness to adjust in the face of unforeseen economic events. We expect the state to closely monitor revenue and modify expenditures through its normal midyear budget adjustment process that occurs in December and January. We expect Georgia's economy to continue to strengthen and experience above-average employment growth relative to the nation; this should support operating revenue in offsetting higher costs associated with education, Medicaid, and long-term obligations such as pensions and OPEB. Fiscal 2016 revenue will likely exceed the forecast, positively affecting the growth rate required to meet fiscal 2017 targets, which we view positively. However, should Georgia's economic expansion stall or should management reverse its position to improve RSR balances or utilize reserves to cover annual operating expenditures, we could lower the rating.

Governmental Framework

The state has a governmental framework that we consider strong. In formulating the budget, the governor is constitutionally required to submit a balanced budget recommendation to the legislature that takes into account available reserves and expected revenue. Georgia has historically based its revenue estimates on an independent recommendation from the state's chief economist to the governor. The state legislature is unable to change the governor's official revenue estimates and must adopt a balanced budget. Once a budget is adopted, a six-month revision occurs when the governor submits an amended budget to the legislature with adjustments for revenue projections and kindergarten through 12th-grade education spending to reflect actual enrollment. The state cannot carry over deficits from one year to the next. Georgia enjoys flexibility to set and modify tax rates, fees, and timing of refunds and exemptions, and needs only a majority vote of the legislature to pass rate adjustments or new taxes.

An amendment to the Georgia State Constitution was approved on November 2014, prohibiting the General Assembly from increasing the maximum marginal rate of the state income tax above the 6% rate in effect on Jan. 1, 2015. Although the state has not raised its rate in the past 30 years, we view this constitutional amendment as effectively reducing the state's revenue flexibility. We recognize there is no impact on the projected state income tax revenue. Officials report that they could examine other areas of the tax code to offset the rate cap, possibly reviewing how the state treats deductions.

Georgia has used several mechanisms to control its expenditures and manage its liquidity. The governor's authority includes a request to state agencies to reserve appropriations he deems necessary for budget reductions and to recommend such reductions to the General Assembly at its next session. The state can also delay disbursements, as it did in fiscal 2009 with the Homeowner Tax Relief Grant, or withhold a portion of its appropriation allotments to its agencies, as it did in fiscal 2010. The Office of Planning and Budget may adjust the timing of appropriations disbursements, and currently releases funds monthly to agencies. Georgia's chief economist monitors revenue results, and updates revenue forecasts periodically. If revenue performance and updated estimates warrant, the economist informs the budget director that additional budget-balancing steps may be appropriate. The state has recommended and the General Assembly has made across-the-board cuts in previous years with the actual level of cuts varying from year to year. Georgia tends to make smaller cuts to education funding but has the legal authority to implement equal cuts to all of its agencies. Historically and if necessary, the governor has given its agencies instructions on cost control measures to institute at the beginning of the year.

The state enjoys a high degree of legal flexibility to issue debt for a wide variety of purposes, but debt service for current and proposed GO and guaranteed debt may not exceed 10% of prior-year receipts. GO debt service is paid out of Georgia's GO debt sinking fund and, if these funds are insufficient, from first money received by the state's general fund. To incur guaranteed revenue debt, the General Assembly determines whether the debt is self-supporting and appropriates an amount equal to maximum annual debt service (MADS) to a common reserve fund. The guaranteed revenue debt common reserve fund, if tapped to pay debt service as a result of a revenue shortfall, is replenished by the general fund within 10 days of the start of any fiscal year.

Georgia is not a voter initiative state and maintains significant flexibility to control and limit disbursements to local government units. The government's level of assistance to local governments is limited mainly to education and is highly flexible. Decisions to apply a lower level of expenditures to education are not due to statutory or constitutional funding requirements but rather are determined by policy.

On a four-point scale on which '1' is strongest, we have assigned a score of '1' to Georgia's governmental framework.

Financial Management

Georgia's budget management framework is good, in our view. The executive branch has broad powers to adjust appropriations, and has a track record of making politically difficult revenue and expenditure decisions to restore balance during the fiscal year. Throughout the recession, the governor withheld a percentage of appropriation allotments from its agencies to reduce overall expenditures to align them with projected revenue. The state has also raised taxes and fees. Deficits are not carried forward, and gap-closing solutions appear to be generally focused on structural budget balance.

Financial Management Assessment: Strong

We consider Georgia's financial management practices strong. A score of strong indicates that financial management practices are well embedded and likely sustainable. In formulating its budget, Georgia has historically based its revenue estimates on an independent recommendation from the state's chief economist to the governor. The state legislature cannot change the governor's official revenue estimates. Once enacted, the state budget is monitored monthly for both revenue and expenditures. The state has an RSR that acts as a "rainy day" fund, established by statute, which cannot exceed 15% of the net revenue of the preceding fiscal year. The legislature recently increased the maximum allowable reserve to 15% from 10%, but fiscal 2015 results show the RSR is 7% of net revenue, so higher allowable amounts do not necessarily translate into the ability to maintain higher reserves. Furthermore, the governor may release for appropriation any amount in excess of 4% of net revenue of the prior fiscal year, and the General Assembly may use an amount equal to 1% prior-year net receipts for the kindergarten through 12th-grade midyear adjustment even if reserves are below 4%. The state previously forecast only revenue, but now projects revenue and expenditures as part of its long-term financial planning. Georgia has a formal debt management policy measured by key indices, including debt service against revenue for all GO and guaranteed debt, debt to personal income, and debt per capita. The state formulates a five-year capital plan that identifies major capital areas but provides funding annually.

On a four-point scale on which '1' is strongest, we have assigned a score of '1.5' to Georgia's financial management.

Economy

Georgia's employment base is well diversified although geographically concentrated around the Atlanta metropolitan statistical area (MSA). The state's warm climate, low cost of living, tax structure, and transportation network make it attractive to employers; Georgia is home to several national headquarters, including Coca-Cola, UPS, Home Depot, Delta Air Lines, and Georgia-Pacific. Population growth has been strong relative to the U.S., and its dependent population is in line with U.S. levels. The state has a strong transportation infrastructure made up of Atlanta Hartsfield-Jackson Airport (the world's busiest), rail access, several major arteries (I-75, I-85, and I-20), and the ports of Savannah and Brunswick.

Georgia has experienced strong population growth with an 11.6% increase over 10 years to 10.2 million in 2015. Over the past 10-, five-, and one-year periods, the state's population trend has outpaced the U.S. growth rate. In addition, Georgia benefits from a slightly younger population with an age dependency ratio of 58.8 versus a slightly higher 60.2 for the U.S. With the solid population growth, the state's wealth and income indices have modestly declined on a per capita basis but have largely grown nominally. In 2015, gross state product and personal income per capita were 87% and 85% of the U.S. rates, respectively, versus 10 years before, when they were 93% and 90% of the U.S. rates. However, the nominal gross state product increased by more than 20% and personal income by more than 31% during the same period. We expect ongoing improvement in the state's wealth metrics as population growth continues as a result of healthy and diverse employment opportunities.

The state's economic recovery is gaining momentum, and IHS Global Insight Inc. reports that Georgia's employment growth continued into the first quarter of 2016 with 3.3% growth in private sector payrolls equating to 115,000 jobs. First-quarter results were realized on the heels of solid annual average growth of 2.5% between 2010 and 2014. The state's employment recovery is broad-based with construction jobs increasing 7% year over year through March 2016. Other sectors experiencing impressive year-over-year growth include business and professional services (4.6%), leisure and hospitality (4.5%), and trade, transportation, and utilities (3.1%). Georgia's unemployment rate declined to 5.5% in March 2016 (preliminary) from 6.2% in March 2015, but it remains above the nation's rate of 5.0%. Over the medium and long term we believe that Georgia's low cost of living, strong transportation network, weather, and favorable business costs are likely to continue attracting business investment and jobs to the state. IHS Global Insight projects Georgia's private sector payroll growth will measure 2.9% in 2016 and 2.1% thereafter with average annual job growth of more than 2.0% between 2015 and 2017, higher than the U.S. rate of approximately 1.5% over the same period. Positive job growth trends should continue to bolster income tax and sales tax receipts, which together contribute approximately 72% of general fund revenue.

Manufacturing, which we've observed is contracting throughout portions of the U.S., has surprisingly shown growth of 2.6% year-over-year as of March 2016. Georgia benefits from significant growth in auto manufacturing and ancillary suppliers, including the initial KIA manufacturing plant in Troup County, which opened in 2009 and created 2,000 jobs with an additional 3,500 jobs attributed to suppliers. Porsche recently located its North American headquarters to the Atlanta area and Caterpillar anticipates expanding in Athens with a $200 million investment. In addition, Mando Corp. will open a new casting facility, expected in Meriwether County (Atlanta MSA), to house 660 workers by 2020. The South Korean motor vehicle parts manufacturer--which serves Hyundai, Kia, Chrysler, GM, and others--already has 400 workers in the county. Gulfstream Aerospace will undergo another expansion in Savannah, adding 1,000 jobs to the current 5,500 there. These developments have been a boon to the Georgia economy.

Other areas of growth, according to state officials, include the movie industry with several companies building sound stages and filming throughout Georgia. In fiscal 2015, the film industry had a $6 billion economic impact on the state with 248 films or television shows shot within the state. In addition, Georgia Tech's educational rigor and research program facilitates Georgia's biotechnology industry with the following companies located in the state: CIBA Vision, Merial Ltd., Solvay Pharmaceuticals, C.R. Bard, and UCB Pharma. Atlanta is also headquarters to the U.S. Center for Disease Control and Prevention, the American Cancer Society, the Arthritis Center, and the Carter Center. Georgia State University continues with its ambitious $1 billion campus expansion that adds housing, classrooms, labs, and other academic space to meet enrollment growth. The projects, which were funded from a variety of sources, including public-private partnerships and fundraising, could spur additional retail and residential growth in downtown Atlanta.

Georgia's housing market continues to improve, with housing prices in the Atlanta MSA up 6% year over year as of February 2016 according to the S&P/Case-Shiller Home Price Index, surpassing the composite index of 20 metro areas nationwide that showed 5.3% improvement. Geographically, most major metro areas are experiencing growth. Atlanta is Georgia's largest MSA and accounts for close to 60% of employment in the state. Despite home sales' trending higher, some indicators point to a slowing recovery with housing starts flattening and price increases moderating.

On a four-point scale on which '1' is strongest, we have assigned a score of '1.6' to Georgia's economy.

Budgetary Performance

According to Georgia statutes, excess revenue collections of up to 4% (but no greater than 15%) must be set aside in the RSR with up to 1% of the net revenue of the preceding year available for funding increased kindergarten through 12th-grade educational needs in the midyear adjustment process. Funds in the RSR in excess of 4% of the previous year's net revenue may be appropriated on the governor's recommendation. Historically, reserves were funded during good economic times and depleted during downturns, consistent with the state's strong financial management practices noted previously. In the past 20 years, the RSR peaked at $1.5 billion in 2007 and was as low as $0 in 1991. Following a substantial contribution of nearly $570 million at June 30, 2015, the RSR was nearly restored to its 2007 peak with a balance of $1.43 billion, or 4.2% of fiscal 2015 general fund expenditures (7.0% of net general revenue), after taking into account the fiscal 2016 midyear budget adjustment for education ($204.3 million). We expect the RSR to surpass its prior peak at fiscal year-end 2016, as officials report that the contribution will approximate a similar amount deposited at June 30, 2015.

The state treasury monitors cash balances daily and reports to and works with the state economist and Office of Planning and Budget to review monthly cash flow projections and expected allotments. Georgia can withhold appropriation allotments and increase processing times for tax refunds to better manage its liquidity. The state may use interfund borrowing to better control its liquidity, or can also borrow externally up to 1% of prior-year receipts, but hasn't yet needed to take either of these actions. Any external cash flow borrowing must be repaid within the same fiscal year. Historically, the state has preferred to implement spending reduction plans and monthly allotment releases to better manage its cash flow.

Georgia's revenue is diverse, with sales tax and personal income tax each contributing more than 15% of revenue. In addition, the state has significant flexibility to raise revenue with a simple majority vote and has raised taxes and fees to close past budget gaps. Historically, Georgia has relied on reserves and expenditure cuts prior to implementing revenue adjustments. It has the legal ability to make across-the-board cuts to the budget through withholding of appropriations. During the most recent recession, the state asked agency heads to identify service level reductions for each year and implemented these cuts based on need. Although Georgia typically reduces appropriations across the board to all agencies, reductions to education tend to be lower than for other areas of the budget, but this is a policy decision made on a case-by-case basis, not a statutory limitation.

Audited fiscal 2015

Audited results for fiscal 2015 show a total governmental fund surplus of $1.9 billion prior to transfers and other financing sources and uses. After these, the surplus was $512 million. Total general fund revenue, including federal sources, was $38.6 billion and exceeded expenditures by $4.4 billion with the surplus declining to $656 million after transfers out. The total general fund balance increased to $5.1 billion (14.8% of general fund expenditures). Of this amount, $3.3 billion was either restricted or nonspendable, with an unrestricted fund balance of $1.7 billion. Georgia's cash and cash equivalents in the general fund nearly doubled to $4.1 billion at June 30, 2015 from $2.6 billion the prior year. Although investments declined slightly to $1.3 billion in fiscal 2015 from $2.2 billion in fiscal 2014, in conjunction with the cash they provided a considerable $5.4 billion in liquidity in the general fund at fiscal year-end 2015 (about 16% of general fund expenditures). Liquidity for the state is good, in our view, resulting in the state's ability to not borrow on a short-term basis for cash flow purposes.

Fiscal 2017 budget

The fiscal 2017 budget totals $23.7 billion, $674 million (2.9%) more than the amended fiscal 2016 budget of about $23.1 billion. The budget is funded with $22.5 billion in general revenue and about $1.2 billion in revenue from the lottery ($1.1 billion) and tobacco settlement funds ($125 million). The revenue assumption is 3.8%, which we view as reasonable given that year-to-date revenue shows nearly 10.0% growth. In our opinion, the budget is balanced and includes full funding of the pension actuarially defined contribution. The 2016 legislative session produced two bills signed into law by the governor that are expected to have a combined negative impact of approximately $106 million on net general revenue. We do not view these tax changes as material to the state's revenue forecast. Spending priorities include ongoing restoration of education funding, health, and human services, as well as infrastructure projects. For fiscal 2017, kindergarten through 12th-grade education was allotted about $433 million more in funding, of which a portion was allocated to teacher raises. In addition, merit increases and pay for high turnover positions were funded in the budget at approximately $228 million. The amended fiscal 2017 budget and the fiscal 2018 budget instructions will be released in August 2016 for agencies to begin formulating their midyear and subsequent-year spending plans.

On a four-point scale on which '1' is strongest, we have assigned a score of '1.3' to Georgia's budgetary performance.

Debt And Other Liabilities

In our view, the state's debt burden is moderate and will remain so despite future debt plans and potential use of public-private partnerships to fund transportation projects. GO debt service is paid out of the GO debt sinking fund and, if these funds are insufficient, from first money received by the state's general fund. To incur guaranteed revenue debt, the General Assembly determines whether the debt is self-supporting and appropriates an amount equal to MADS to a common reserve fund. The common reserve, if tapped to pay debt service as a result of a revenue shortfall, is replenished by the general fund within 10 days of the start of any fiscal year. Georgia's overall debt burden remains moderate, in our view. Based on current revenue, management expects to be within its 7% debt affordability model limitations for debt service as a percentage of prior-year receipts through 2018, including the current transaction and planned amounts of $950 million annually in 2018 through 2020. For 2016, management projected this ratio at 5.81% of prior-year revenue and 5.50% of current-year revenue, both below the 7.00% limitation. The state's calculations do not consider savings from the current refunding transactions (series 2016C and 2016D) or a future refunding of guaranteed revenue bonds that the state contemplates executing in the medium term. The state's calculation is based on available revenue; this differs from our calculation, which is based on expenditures. The 2017 budget authorizes the issuance of $950 million, not including $364 million in authorized but unissued GO debt, which brings the total general debt obligations for fiscal 2017 to $1.4 billion. The state has only $127 million in variable-rate debt with a fixed spread to the Securities Industry and Financial Markets Assn. index of 40 basis points, which resets weekly and has no put risk. The maximum rate is set at 9%, and Georgia is required to budget for this debt at the bonds' highest possible rate. Debt amortization is rapid, with 70% retired within 10 years and all debt amortized within 20 years.

Although previously the constitution would not allow the state to enter into multiyear leases, on Nov. 6, 2012 voters approved a constitutional amendment to permit multiyear leases for the Board of Regents (BOR) and the State Properties Commission (SPC). The Georgia State Financing and Investment Commission (GSFIC) determines the amount of multiyear leases the SPC and BOR may enter into annually, and authorization lapses at the end of the fiscal year if not utilized. For fiscal 2016, the GSFIC provided $620 million in authorization for the SPC; state officials report that $77 million has been absorbed to date with an additional utilization of $130 million by June 30, 2016. A further $100 million in authorization is provided to the SPC for fiscal 2017. For multiyear leases entered into by the BOR, $150 million in authorization was provided in fiscal 2016 and officials anticipate about $114 million may be utilized by year end. A modest $30 million is expected to be authorized for the BOR in fiscal 2017. By policy, GSFIC will limit annual obligation authority for multiyear leases to no more than 0.5% of prior-year Georgia state treasury receipts. Leases will be subject to the 20-year statutory limitation and may be terminated if the General Assembly fails to appropriate lease payments.

The state has two major plans pension plans: the Teachers Retirement System (TRS) and the Employees' Retirement System (ERS), which are funded at 79.1% and 74.1%, respectively. Georgia has fully funded the annual required contribution (ARC) and since 2012 and has overfunded the actuarially determined contribution by a cumulative amount of more than $3.2 million, including the amount in fiscal 2016. Based on Governmental Accounting Standards Board Statement No. 68 reporting standards, the state's allocable share of the TRS and ERS net pension liability equals 17.6% and 91.2%, respectively, which represents approximately $6.0 billion of the total unfunded actuarially accrued liability of $16.7 billion.

The TRS and ERS boards adopted new funding policies in November and December of 2013, respectively. The ERS funding methodology uses the entry age actuarial cost method, level dollar, closed amortization over a 25 year period, and a five-year asset valuation smoothing. For TRS, the assumptions are similar, but the system assumes a level percentage of pay and closed amortization over 30 years. Both systems assume a 7.5% rate of return but have lowered inflation (to 2.75% from 3.00%) and wage growth (to 3.25% from 3.75%) to better align these assumptions with actual experience.

As plan sponsor, the state reports the OPEB liability for both state employees and school personnel. The state's combined OPEB unfunded liability when considering both employees and school employees was $11.4 billion as of June 30, 2014 (the most recent period for which data are available) down from $14.4 billion as of June 30, 2013. Both plans were 0% funded. According to management, the decline in the liability reflects the changes in plan design, deductibles and copay requirements, and favorable claims experience. As of July 2012, the plans also require that retirees pay a portion of the blended contribution rate based on the retiree's length of service at retirement. The State Employees' Assurance Department's OPEB (that provides life insurance) is overfunded by nearly $250 million and had a 132% funded ratio. In addition, the BOR had an unfunded OPEB of $4.3 billion at July 1, 2014.

The OPEB ARC declined to $259 million in fiscal 2016 from $276 million in fiscal 2015 for state employees and remained at $873 million in fiscal 2016 for school personnel. Further declines in contribution requirements are projected for fiscal 2017 with payments for state employees of $202 million and a substantial decrease to $670 million for school personnel. Although Georgia's OPEB liability remains significant at $11.4 billion ($1,115 per capita), the state has proactively modified plan benefits and created reserves in the OPEB trust funds equal to $610 million at fiscal year-end 2016 to ensure costs remain manageable on a pay-as-you-go basis. The OPEB actuarial valuation for the period ending June 30, 2015 will incorporate results of the pension plans experience studies. When released, officials anticipate the liability and ARC payments may increase significantly in fiscal 2018.

On a four-point scale on which '1' is strongest, we have assigned a score of '2.2' to Georgia's debt and liability profile.

Related Criteria And Research

Related Criteria

- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of June 2, 2016)		
Georgia GO bnds		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO bnds		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO bnds		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO qual sch const bnds - direct pay		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia State Rd & Tollway Auth, Georgia		
Georgia		
Georgia State Rd & Tollway Auth (Georgia) GO		
Long Term Rating	AAA/Stable	Affirmed